Written Testimony of Richard Clayton, President
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Before the
United States International Trade Commission
On The Impact Of The Steel Safeguard Program
Under Section 332 Of U.S. Trade Law

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Good morning Chairman Okun and members of the Commission. I am Richard Clayton, president of Michigan-based Textron Fastening Systems (TFS). I appreciate the opportunity to appear before you today to discuss the detrimental effects of the 201 Steel Safeguard Program on my company and U.S. industry.

I'd like to thank the members of the Commission for holding this hearing on an issue so critical to my company, the members of the Motor and Equipment Manufacturers Association (MEMA), and to the health and future of the manufacturing base of our great country. It is our collective issues - not those of any individual company - that in the end must sway this Commission and our government to action. For that reason, I value this chance to add our company's voice to the debate and speak out about the critical situation facing our industry and the U.S. economy.

I'll begin my comments by telling you about Textron Fastening Systems. We are a $1.6 billion business unit of global multi-industry company Textron Inc., which had 2002 revenues in excess of $12 billion. Textron is ranked among Fortune magazine's Global 500 listing of international firms.

Our company has actively supported the MEMA tariff position on behalf of the automotive supplier industry, as well as of House Concurrent Resolution 23 sponsored by Congressman Joe Knollenberg of our home state of Michigan.

Textron Fastening Systems is a global leader in the fastening systems market, with about 11,000 employees at 80 sales, manufacturing, engineering and logistics facilities in 17 countries serving customers in nearly every country in the world.

We participate in what is estimated to be an approximately $36 billion global fastener market that is about evenly distributed between the Americas, Europe, and Asia Pacific. On a revenue basis, we are positioned second worldwide among the top four global fastener companies, all of which are headquartered in the United States. Our broad technology and service portfolio puts us in a unique position with respect to our competition. We are the only globally organized fastening firm that can provide customers every major category of fastening technology across every market.

Generally speaking, this means that we hold virtually everything together, whether it flies or floats, is ridden or driven, spans a river or towers in the air. We fasten manufactured goods for customers in every industry, every market, and nearly every country in the world. It takes a lot of steel to make that possible.

During 2002, TFS purchased 225 million tons of steel on a global basis. Approximately 190,000 tons of that was flat strip, stainless and other steel (about $109 million) from U.S. suppliers for domestic consumption.

This breaks down as follows:

- Flat strip – 45,000 tons (about $26 million)
- Rod – 108,000 tons (about $46 million)
- Wire – 44,500 tons (about $37 million)

About 45,000 tons of our North American steel purchases – or nearly one fourth -- were subject to tariffs. We experienced pricing pressure on our total steel purchases during 2002 due to a convergence of market conditions.

TFS Impact

After the tariffs on imported steel were passed in 2002, we thought prices would ramp up gradually. Instead, we experienced an immediate, rapid escalation of prices for flat steel of about 30% and a corresponding sharp decline in availability. Because U.S. capacity for sheet steel could only sustain approximately 75% of domestic demand, the domestic steel mills imposed allocations that fulfilled only 60% to 80% of many customers' prior requirements. This created an artificial restriction on supply, with steel mill lead times doubling and in some cases tripling.

Ultimately, the tariffs gave U.S. steel producers a legally imposed artificial barrier for their pricing and none of them wasted the opportunity. Domestic mills immediately increased prices to their customers and breached existing contracts. Steel processors, refusing to absorb the increases, passed them on to their customers, refusing to ship in most cases unless their price increases were accepted. Our suppliers – the distributors -- then breached their supply agreements to us and threatened to halt shipment to us unless we acquiesced to their price increases. In order to avoid shutting down our customers' production lines, we had no alternative but to accept the higher prices imposed by our suppliers. The impact was a $4.5 million increase in our domestic flat steel costs during 2002.

Recurring shortages of material, greatly extended lead times, and delays in deliveries put us in a daunting position when it came to meeting customer requirements for on-time delivery. It forced our company, like many others, to increase the volume of steel we purchased in the spot market at premium pricing that at times was higher than what we experienced from the tariff impact. There was no relief here. Indeed, prices had escalated in contrast to contract prices.

Global "Perfect Storm"

As the pricing and supply situation in the United States worsened, we entered a phase that can only be characterized as a "Perfect Storm" for TFS and other global steel consumers. As 2002 progressed, pricing pressure from the East, West and South mounted. The "steel squeeze" had gone global. Demands for higher prices by European steel suppliers were immediate, and grew louder and more persistent with each passing month. While we resisted taking these increases for a few months, with the exception of spot buys on selected steel commodities, we soon began to take on water and it was rising fast. We were left with little alternative but to accept material increases to receive product.

Regional producers In Europe, Asia Pacific and later Brazil seized the opportunity to leverage the spiraling pricing situation to their advantage. Using the North American price escalation as a platform, these companies attempted to set a uniform pricing structure worldwide, regardless of existing local market conditions. They succeeded, raising flat steel prices to uniform levels globally at artificially higher levels.

Pricing pressure on our commodity products became brutal. We watched our margins shrink, despite our ongoing restructuring, overhead cost reduction, and tight inventory control efforts, as well as other measures to contain costs. Our own eroding position, combined with the declining global economy, painted us into a financial corner.

By the fall of 2002, we could no longer afford the hardship this situation was causing. On October 1, 2002, we imposed 7% flat steel and 2% wire/rod surcharges with our non-OEM North American customers whose programs with us used these products. The amounts reflected specific price increases we had incurred during the year from our flat and wire steel suppliers.

You can imagine the reception this received. A few customers understood the situation and agreed to the increase, giving us a net benefit of less than $300,000 in 2002. The rest of our customers declined. Many of them responded to our surcharge by de-sourcing us on future programs, resulting in lost revenue of more than $14 million and $4 million of net operating profit for fiscal year 2003. The lost business forced us to eliminate more than 100 corresponding production jobs.

Exclusion

In this environment, we eagerly welcomed the exclusion process, based on our hope that it might lift some of the pricing burden on key products. After reviewing our tariff-related purchases, however, we found only one that met the narrow confines of the process: Camtronic, a stainless steel wire purchased from our supplier Suzuki in Japan that our Decorah Iowa plant used to manufacture high-performance threaded fasteners for global electronics and computer applications.

We received our first tariff related price increases (8% tariff) on this product in March 2002 from supplier Jicam / Miyazaki (Suzuki). We began our exclusion application last June. In July, we plead our case with Assistant Secretary of Commerce Shirzad and representatives of the Senate Finance Committee. In August, the U.S. ITC rejected our request of exclusion.

We immediately began efforts to have this material excluded beginning with the second year of the tariff. Carpenter Technology, the only domestic challenger of the exclusion, failed to produce an acceptable sample to TFS of their equivalent of the Camtronic material and decided not to challenge our second petition for exclusion. This March, TFS received exclusion status for the Camtronic material.

While appreciated, this was a microscopic victory. Of all 48,000 tons of tariff-eligible steel we purchased in 2002, our 128-ton Camtronic buy represented just 0.2 percent of the total. This was a modest benefit by any measure. For us, the exclusion process provided far too little help in addressing the pain created by the Steel Safeguards Program.

In summary, Textron Fastening Systems stands right alongside our partner MEMA members in urging you to recommend to the President that the 201 Steel Safeguards Program be discontinued. It has caused significant damage to the competitiveness of U.S.-based automotive suppliers, other steel-consuming companies, and all of American industry. In addition, it has placed the domestic steel industry in an uncompetitive position on a global basis. If not halted, this program will continue to erode the ability of companies like ours to compete for our very futures, while feeding the exodus of manufacturing jobs from our country. TFS, like the other companies appearing here today, entreats this Commission to restore rational pricing to our industry, and the global market to a position of free and open competition.

Thank you for holding this hearing and for allowing Textron Fastening Systems the opportunity to appear before you to express our position on this matter.